



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

February 11, 1998

The Honorable James Leach
Chairman
Committee on Banking and Financial Services
U.S. House of Representatives
Washington, D.C. 20515-6050

Dear Chairman Leach:

Thank you for your letter inquiring about the supervision of data service and product providers that are so important to the financial industry's efforts to prepare for the year 2000. The Office of the Comptroller of the Currency, and the other member agencies of the Federal Financial Institutions Examination Council, agree with you, Mr. Chairman, that depository institutions should receive the results of the regulators' year 2000 examinations of these vendors as quickly as possible. We are making every effort to see that this is accomplished.

In your letter, you ask about the differing practices of the FFIEC member agencies when disclosing the results of data service provider examinations to the financial institutions that rely on those providers. The FFIEC policy on disclosure, as contained in the FFIEC-IS Examination Handbook, SP-1, requires that all agencies send data service providers' examination results to all affected institutions when the provider earns a poor rating of 4 or 5. The agencies have the discretion to send affected institutions the examination results of better rated data service providers, and these financial institutions also may request a copy.

Given the critical nature of the year 2000 problem and the industry's reliance on the readiness of its data-processing servicers, the OCC, the Federal Reserve Board, the Federal Deposit Insurance Corp., and the Office of Thrift Supervision have agreed to send the results of all year 2000 examinations of data service providers to affected depository institutions. The NCUA does not release these examination results because it presently lacks authority to examine data service providers.

It is our view at the OCC that regulators have less clearly established authority over software companies. As a consequence, under current FFIEC policy, member agencies do not release the results of examinations of software used by financial institutions. Issues identified during the

examinations are included within the context of the overall supervision of the financial institution using the software.

The FFIEC member agencies, however, recognize the importance of year 2000 software vendor examinations. Thus, we are working to resolve disclosure issues so that, to the extent possible, the year 2000 examination results can be disclosed to the financial institutions. To accomplish this goal, FFIEC member agencies are consulting with software vendors and are asking for their consent to the disclosure of the examination results to financial institutions using that software. FFIEC member agencies also have emphasized to these software vendors that they have a responsibility to disclose to their client financial institutions their year 2000 compliance status. Finally, FFIEC member agencies are encouraging due diligence on the part of financial institutions. We have emphasized that financial institutions have an obligation to inquire into their vendor's year 2000 compliance efforts.

If I may be of any further assistance, please do not hesitate to ask.

Sincerely,

Eugene A. Ludwig
Comptroller of the Currency
Federal Financial Institutions Examination Council Chairman

cc: FED
FDIC
OTS
NCUA